


STAFF REPORT
City of Lancaster

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MVB <i>MVB</i>

Date: January 13, 2015

To: Mayor Parris and Council Members

From: Barbara Boswell, Finance Director 

Subject: Form of Power Purchase Agreements to Support Service Commencement for Lancaster Choice Energy

Recommendation:

Approve the Master Agreement, Confirmations (for requisite energy products and services, including electric energy, renewable energy, resource adequacy capacity, and scheduling coordinator services) in substantially the form attached hereto to support commencement of Community Choice Aggregation (CCA) electric service to the customers of Lancaster Choice Energy (LCE). Authorize the City Manager or his designee to execute the aforementioned agreements and confirmations following the receipt of binding price quotes from energy product and service providers, subject to the conditions set forth below.

Fiscal Impact:

The cost of procuring requisite energy products and services will be paid through revenues collected from the sale of electric power to LCE customers.

Background:

The City is in the process of implementing its CCA program, LCE, to provide electric generation service through a suite of retail energy products to residents and businesses within City limits. The feasibility study indicates that the LCE program can not only recover all of its operating costs, but can do so while saving LCE customers money as well as providing cleaner energy.¹

Mayor R. Rex Parris has led a comprehensive effort to implement renewable energy throughout the City of Lancaster in an effort to preserve our environment and protect our local air quality, with the ultimate goal of becoming the nation's first net-zero electricity city. Following a long and steadily increasing series of successful renewable energy projects in Lancaster, ranging from residential rooftop solar programs and energy storage to utility-scale solar developments, LCE marks the next and greatest step yet in Lancaster's quest to reach net-zero status.

¹ The LCE feasibility study was conducted in consideration of then-current prices for electric power and related services. These prices are subject to change over time, but foreseeable trends in California's electric power market appear to support near-term LCE operations that will allow for the recovery of operating costs associated with the LCE program while also promoting rate savings for participating customers.

In order to ensure the goals established by the City Council for LCE are being met through the power procurement process, the Lancaster Choice Energy Power Supply Roadmap (Roadmap) was created to delineate goals and identify related contract provisions that will sufficiently address such goals. These goals emphasize increasing renewable energy content and enhancing consumer choice while also saving LCE customers money. The Roadmap, which is provided as an attachment hereto, was used in developing the form contract documents to be used in procuring electric power and related services to support service commencement to LCE customers.

Within the electric utility industry, it is common practice to procure electric power and related services through a multi-agreement structure. There are various agreements/documents required to effect such transactions, including:

- 1) The **MASTER AGREEMENT** between the City (buyer) and the Energy Service Provider (ESP, or seller), which addresses the general terms and conditions related to the contractual relationship between buyer and seller. In this case, the agreement is based on a standard industry contract developed by the Edison Electric Institute, and all exceptions and changes to the standard agreement are recorded in a Cover Sheet. Utilizing this format makes it easy for the buyer and seller to review any differences and exceptions relative to the standard agreement, making negotiations much more efficient.
- 2) **CONFIRMATIONS** between the City (buyer) and the ESP (seller) establish pertinent commercial terms for the purchases of various energy products, including a definition of the product itself, pertinent pricing, delivery period, applicable quantities and other delivery specifications, among other details.

On May 16, 2014, the city issued a Request for Information for Energy Supply, Renewable Energy and Resource Adequacy Capacity. Responses were received and evaluated based on indicative pricing, financial strength and creditworthiness of each respondent, and general experience represented by each respondent's team of professionals. Based on this evaluation, three providers were selected as finalists, all of which are well-qualified to support one or more aspects of LCE operation.

In December 2014, the draft Master Agreement and Confirmations were sent to the three finalists for their review and comment. On December 26, 2014, preliminary load data were provided to the finalists. Indicative pricing is due to the City on January 8, 2015. This action is contingent on indicative energy pricing being such that the City will be able to achieve its goal of offering our basic energy product (Clear Choice) with a higher renewable percentage and lower overall cost than similar service provided by SCE.

Due to daily fluctuations in the market price of power, if we were to ask the providers to hold their final pricing for more than a few hours, the providers would add a significant premium to their price quotes to account for this market risk. The time-sensitive nature of fluctuating market pricing and contract execution requires that the agreement be executed within a short time following final pricing. It is recommended that the City Manager be given authority to execute the agreements within 24 hours of receiving binding pricing, with the following conditions:

- Binding final pricing received from the energy supply provider is at or below a level that will permit the City to deliver power to its customers in 2015 at an average retail rate that is below SCE's current estimated average retail generation rate.
- If more than one ESP submits binding prices that will enable the City's average retail rate to be below SCE's average estimated retail rate, then the City Manager shall consult with the City's implementation team, consultants and legal counsel to select the final winning bidder, based on the following criteria:
 - 1) Price
 - 2) Ability of the eligible finalist to meet the City's program goals based on the Lancaster Choice Energy Supply Roadmap
 - 3) Relative creditworthiness of the eligible finalists
 - 4) The relative experience of the eligible finalists serving wholesale power to customers in similar circumstances to the City
 - 5) The relative strength of the eligible finalists management team assigned to serve the City's account
- If no ESP provides the binding final pricing that would enable the City to provide service at an average retail rate that is below SCE's current average retail rate, then the City Manager cannot sign any agreement.
- The City Council will be updated on the outcome of the final pricing at its January 27, 2015 closed session meeting.

Attachments:

Lancaster Choice Energy Power Supply Roadmap
Master Agreement
Confirmations